PROFESSIONAL SERVICES COUNCIL

STATEMENT OF

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PRESIDENT

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE AND ACCOUNTABILITY

COMMITTEE ON GOVERNMENT REFORM

HEARING ON

"OFFICE OF MANAGEMENT AND BUDGET'S FINANCIAL MANAGEMENT LINE OF BUSINESS INITIATIVE: DO RECENT CHANGES TO THE IMPLEMENTATION GUIDANCE CLARIFY THE RULES?"

JUNE 28, 2006

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Introduction
Chairman Platts, Ranking Member Towns, and members of the Subcommittee, on behalf of the Professional Services Council (PSC), thank you very much for the invitation to testify today to share our perspectives on the OMB Lines of Business (LoB) initiative. The Professional Services Council is the leading national trade association representing the full range of contractors in the government services sector. Among our advocacy functions is to work collaboratively with our government colleagues to identify solutions to many of the procurement, outsourcing, and general business challenges we collectively face. PSC and our more than 200 member companies are committed to working with OMB and Congress to make this LoB initiative a success.

In discussing the LoB initiative, I have divided my comments into three distinct, though inter-connected, categories: the overarching strategic framework, implementation challenges and the role of government, and the competition framework. Each is essential to the success of the overall LoB program and each must be considered and assessed both independently and as part of the whole. Finally, my comments today are intended to address the entire LoB initiative and are not solely relevant to the Financial Management element.

A Sound Strategic Framework

The foundation for the federal government's Lines of Business initiative is sound and rational. It is the right thing to do. The Office of Management and Budget's (OMB) stated goal is to eliminate duplicative and redundant administrative systems and operations, improve operational efficiencies and visibility, and deliver better results for the agency and the taxpayer. If an institution of any size can harmonize and synthesize its common support functions, real and meaningful business value will be gained. To its credit, OMB has clearly put a great deal of thought and effort into the various LoB initiatives and is committed to its success; they also recognize many of the steep challenges this initiative faces. In fact, perhaps the single most important factor that will drive its long-term success and effectiveness is the level of leadership focus and attention that OMB is giving to the initiative.

OMB also recognizes that the LoB initiative is a long-term undertaking and that full migration could easily take ten or more years as it, and the individual agencies, struggle with decades-old legacy systems, processes and, significantly, cultures. In recognition of the enormity of this challenge, the May 2006 draft Migration Guidance that OMB issued for the Financial Management LoB properly devoted an entire chapter to Change Management and communications. This is particularly important because, while this initiative has largely been viewed as an E-Government program implemented through the leadership of agency chief information officers, it is fundamentally <u>not</u> about information technology. Rather, it is about rationalizing broad agency business practices and processes. For that same reason, it would be inappropriate to view this initiative as an attack on the existing federal workforce, or a means to outsource the work.

But the degree of success for this initiative is dependant on the extent to which federal agency communities of interest, at the leadership and operational levels of all affected agencies, are involved and fully invested in it. That willingness and ability also ties directly to the overarching business value that the initiative can deliver for each individual agency and how best to achieve that value. These are essential predicate steps that must be taken before an agency makes a decision to commit to a specific LoB activity. For the first round of LoB initiatives, it appears that the decision process is inappropriately ahead of the requirements development and transition analysis processes.

Implementation Challenges and Questions About the Proper Role for Government

Notwithstanding the sound strategic underpinning of the LoB initiative, there are a number of additional questions relating to the six LoB areas already under way, the three new LoB areas OMB announced in March, and the creation of government-based Shared Service Providers as a key element of the initiative.

For example, as a result of being designated a Shared Service Provider, such agencies will naturally be inclined to robustly build up their business functions covering their specific LoB element. It is not clear that the emergence of such Shared Service Providers will add critical value to important agency programs. In other words, it is fair to ask whether "entrepreneurial government" genuinely serves the public interest where agencies build business capabilities unrelated to their core mission areas. It is one thing for the Department of the Interior, for example, to share its expertise in natural resource management with other agencies; it is entirely another thing for that Department, or any other, to build a business line completely disassociated from that core mission.

This is not a new issue for the federal government. It is precisely what occurred with the rise of the franchise fund activities that were designed to offer various interagency services. Serious questions are still raised about the rationale for such activities, let alone the fairness of the "playing field" on which they compete (or don't) with the private sector. Today, as the government faces severe budget and human capital challenges, it is all the more important to carefully assess whether it is beneficial to devote the people, technology and other resources required to continuously maintain "excellence" in a function outside of the designated agency's core mission requirements. It is also important for agencies and Congress to conduct the same strategic assessment that any high performing institution conducts when determining what activities are truly central to its mission and thus worth the investments and infrastructure required to maintain excellence and which functions are better left to others.

The success of the LoB initiative is also directly tied to the creation of appropriate performance measures and metrics, and to agency and government-wide adherence to those measures and metrics. OMB has clearly recognized this fact and the interagency-developed Migration Guidance OMB issued contains just such a list. Our initial review suggests that the list itself might be too long, too detailed and could result in a sub-optimization of the effort, but it does represent an important start. However, although the performance measures and metrics most likely can be achieved whether the government itself uses Shared Services Providers to execute that work, the issue of the government's role is largely absent from the list.

Therefore, the more salient question is whether that list, properly streamlined, could as effectively serve as the government-wide baseline requirements for any significant investments and upgrades that all agencies must meet, while leaving the agency's implementation to a competitive, best value procurement conducted by the customer agency. This would allow each agency to determine, within the confines of government-wide requirements, how to best fulfill its mission and still meet these standards. However, we are concerned that, as it stands now, OMB's business case process has imposed a significant hurdle for any agency investment or acquisition decision other than migration to a designated federal agency Shared Service Provider.

Some suggest that these government Shared Service Providers offer agencies access to high quality technology and solutions at a lower cost, without having to pay the "profits" companies build into their prices. However, this is a pyrrhic argument.

Many of the capabilities to be offered by the Shared Service Providers are already, or will be, procured by the centers from private sector sources. Therefore there is no reason to believe that the profit element will be any less present in Shared Service Providers than it would be through a more traditional procurement model. In addition, among other important benefits, company profits provide the essential resources for reinvestment in both the workforce and continuous process and technology improvement. One of the government's greatest challenges for many years has been finding those very same kinds of resources to maintain pace with changes in technology and technology skills. Especially in this era of budget and resource constraints, it is difficult to imagine how organic government Shared Service Providers could maintain that currency.

Despite a lot of rhetoric to the contrary, it is also a fact that one of the great advantages of direct contract relationships with the private sector is that they provide the agency with levels of accountability and control that it cannot otherwise achieve. Contracts provide firm definitions of the work to be performed and the price to the government for performing the work. No such construct exists with interagency agreements. We are just beginning to see whether the "letter of obligation" under competitive sourcing awards can provide such equalized benefits, but even there, significant, unavoidable limitations exist that in turn limit an agency's ability to fully hold organic activities accountable.

Finally, today there is pressure throughout government to re-evaluate the use of interagency contracting vehicles, to some extent because of concerns about the value received in return for the fees agencies pay to other agencies. Much of the stigma currently attached to interagency contracting is wholly unwarranted, although some of the questions are fair and reasonable. Similar questions should be asked of the LoB initiative.

The Competition Framework is Highly Problematic

As a result of the fiscal year 2006 Transportation-Treasury Appropriations Act enacted last year, OMB has determined that virtually all activity conducted under the LoB initiative must utilize the competitive sourcing procedures under OMB Circular A-76. While we did not have this LoB initiative in mind during last year's congressional consideration of that appropriations act, PSC strongly opposed that provision because of its adverse effect on the existing and future competitive sourcing program.

If that statute and the requirements of OMB Circular A-76 are forced against the LoB initiatives, our view is that the initiative will face serious, if not insurmountable, obstacles to success. It is notable that over the last few years, OMB's own reports on competitive sourcing have documented that private industry is, by and large, unwilling to invest precious bid and proposal resources in the A-76 process because it is beset by problems and the opportunity for bidding and execution success are low.

The A-76 process, especially as Congress constrained it last year, is almost wholly inconsistent with the objectives of a LoB because it effectively prohibits the very kind of best value source selection that is intended to be at the heart of LoB decision-making. Instead, because Congress determined that A-76 decisions, unique among all other government procurements, must be made solely on the basis of the lowest cost, agencies are precluded from making smart trade-offs between cost and innovation, performance, and continuous improvement that the LoB initiative is designed to achieve. In the technology space more than anywhere else, cost is important but often not nearly as important as innovation, technical capability, transition experience, continuous improvement, and more. Best value is an acquisition strategy that allows the agency the flexibility to combine the best of strategic and creative thinking, with firm performance and evaluation criteria.

Further, the A-76 process takes longer to conclude than procurements of similar size and complexity conducted under the regular procurement process. To subject to the A-76 process each and every cross-agency request for support from a Shared Service Provider would be a strong disincentive for an agency to undertake the LoB analysis and for the private sector to participate.

Additionally, there are significant procedural questions associated with the application of the A-76 Circular to the LoB that must be addressed, such as how to form the government's "most efficient organization," how to prepare the agency tender, and clarity around the applicable appeal and protest processes.

There is also an important political dimension to the A-76 issue that cannot be ignored. In virtually every case where an agency announced a competitive sourcing study, there have been political efforts, many of them successful, to preclude the agency from going forward. Whenever a private contractor has won an A-76 competition—a rare event in and of itself—there have been efforts in Congress to legislatively overrule the procurement process. For example, just last week the House adopted an amendment to the Defense Appropriations Act offered by Delegate Eleanor Holmes Norton that prohibits the implementation of a duly awarded contract at Walter Reed Army Medical Center—a contract that was awarded after an almost unprecedented post-award oversight process that included detailed reviews by the Army Audit Agency and Army Inspector General and protests at the Government Accountability Office (GAO). Those reviews were prompted by the disclosure of substantial procurement integrity violations by the government's bidding team. This type of legislative action is, unfortunately, the norm rather than the exception and will serve as a substantial disincentive to both private sector and agency participation in the LoB initiative. As a side note, the post-award reviews related to the Walter Reed contract have dragged on for nearly two years. Can you imagine if every LoB agreement were subject to that kind of uncertainty, political interference, and schedule slippage? For the FM LoB, the result would be continued financial management cost inefficiencies and stagnation of agency financial systems, which would greatly hinder agencies' ability to improve their compliance with FFMIA and other important federal financial management laws.

The Requirements Process Must be Optimized and Rationalized

As OMB seems to recognize, regardless of whether the government itself operates Shared Service Providers, it is clear that the success of the LoB initiative is also dependent upon the quality, clarity and firmness of the government's requirements. It is unfortunate but true that the federal landscape is littered with examples of great technological and business solutions that failed to deliver the expected and promised results because the government requirements process itself was unclear and/or constantly shifting.

For the LoB initiative to succeed and achieve the anticipated savings and synergies, it is essential that disparate agencies agree on a firm, clear, rational, and common framework for each element of the initiative. It is essential to recognize that the ultimate effectiveness of any individual LoB initiative will hinge greatly on the degree to which that common framework meets the needs of both the large and small agencies without becoming so riddled with individual customer demands that it loses the very efficiencies and synergies it was designed to create. Unless properly and carefully managed over a long period of time, a loosely defined, evolving, overly-customized requirements process threatens the effectiveness of the entire LoB initiative. It could create untenable business risks for the service provider, whether an agency activity or one or more contractors, and, as history has shown us, could drive costs up and results down.

Further, it will be important for individual elements of the LoB initiative to interface and integrate with others. This "cross-LoB" requirement is essential, since, for example, HR systems must interface with finance, travel, and other functional areas. As such, further explanation or understanding as to how the Business Reference Models and architectures are integrated across the various LoB elements would be both helpful and important for both the government and its industry partners.

The Potential Effects on the Broader Marketplace Cannot be Ignored

Just last month, the Center for Strategic and International Studies released a report titled: "Structure and Dynamics of the U.S. Federal Professional Services Industrial Base." This report details the critical trends in the federal marketplace relating to both the nature and scope of government buying and the ways in which the professional services industry is responding to and being shaped by the government's activities. The report is relevant to this hearing because the LoB initiative could have unintended impacts on the services industrial base that supports the federal government. The report clearly documents a growing market squeeze on mid-size firms, and limited growth opportunities for small businesses beyond their small business status, and more.

One question that has been around since the LoB initiative was launched relates to the degree to which it could serve as a barrier to access to, or growth within, the federal market for businesses of all sizes, particularly if Shared Service Providers become the mandatory or near mandatory sources for agencies for the relevant functional capabilities. In the commercial sector, this is a common dynamic. But the commercial world's procurement system and rules are not constructed around the set of competition, socio-economic and other related requirements that exist in the government market. In that sense, the LoB initiative could create a conflicting policy and business environment. This area has not been widely discussed as part of the LoB initiative but we believe it is essential to promptly do so.

Conclusion

Mr. Chairman, we applaud OMB for launching the LoB initiative and believe that it is the right thing to do. At the same time, we do have concerns that are focused on critical implementation challenges and important policy questions. We look forward to working with OMB and this committee on strategies to help ensure the LoB initiative's long-term success.

Thank you for your time. I look forward to your questions.

STATEMENT REQUIRED BY HOUSE RULES

In compliance with House Rules and the request of the Subcommittee, in the current fiscal year or in the two previous fiscal years, neither I nor the Professional Services Council, a non-profit 501(c)(6) corporation, has received any federal grant, sub-grant, contract or subcontract from any federal agency.

BIOGRAPHY

Stan Z. Soloway is president of the Professional Services Council, the principal national trade association representing the government professional and technical services industry. PSC is known for its leadership on the full range of government acquisition/procurement and outsourcing and privatization issues. Mr. Soloway assumed the presidency in January 2001.

Mr. Soloway is an expert on the relationship between the public and private sectors and is routinely sought out by the media, federal agencies, congress and others to provide commentary and perspective on the full range of procurement and outsourcing issues. He also writes a monthly column in *Washington Technology* magazine (a publication of The Washington Post) and was a member of the congressionally mandated, national panel on the future of government outsourcing chaired by the Comptroller General of the U.S.

Prior to joining PSC, Mr. Soloway served as the deputy undersecretary of defense (acquisition reform) and concurrently as director of Secretary of Defense William Cohen's Defense Reform Initiative. As deputy undersecretary, he was the department's senior official responsible for the development and implementation of far-reaching reforms to DoD's acquisition processes and policies and for the oversight of the training, education and career development of the 200,000-member defense acquisition workforce. As director, DRI, Mr. Soloway led significant department-wide re-engineering and reform initiatives in areas as diverse as privatization and outsourcing, electronic commerce, financial management reform, logistics transformation, and the quality of life for American troops.

In recognition of his leadership at DOD, Mr. Soloway was awarded both the Secretary of Defense Medal for Outstanding Public Service and the Secretary of Defense Medal for Distinguished Public Service.

Mr. Soloway is a principal of the Council on Excellence in Government, and was an expert panelist for studies conducted by the Center for Strategic and International Studies on the future of defense technology and acquisition policy. He is also a member of the Board of Advisors of the National Contract Management Association, was a 2005 recipient of the prestigious Federal 100 Award, and speaks frequently to industry and government organizations on government technology, acquisition, human capital, and strategic management issues.

Before his appointment to DOD, Mr. Soloway was a public policy and public affairs consultant for more than 20 years and a highly regarded expert in, and frequent lecturer on, acquisition, privatization, and outsourcing issues. He also co-produced the critically acclaimed “Great Confrontations at the Oxford Union”, a series of prime-time specials that aired nationally on public television. He earned a degree in political science from Denison University, where he was elected to the National Men’s Journalism, National Men’s Leadership, and National Political Science honorary societies.